

**STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
45 Fremont Street, 21st Floor
San Francisco, California 94105**

RH 03026431

July 21, 2003

**FINAL STATEMENT OF REASONS AND
UPDATED INFORMATIVE DIGEST**

CALIFORNIA LOW COST AUTOMOBILE INSURANCE PROGRAM RATES

INTRODUCTION AND UPDATED INFORMATIVE DIGEST

California Insurance Commissioner John Garamendi has determined, after public hearing, to maintain current statutory premiums for the California Low Cost Automobile Insurance Pilot Programs of \$347 for Los Angeles County and \$314 for the City and County of San Francisco. In addition, the Commissioner has adopted the recommendation of the California Automobile Assigned Risk Plan ("CAARP") to maintain the current 25 percent surcharge for unmarried male drivers ages 19 through 24 years of age.

To implement these determinations, the Commissioner has adopted amendments to Section 27 of the program's Plan of Operations specifying premium and surcharge rates. The Plan of Operations, approved by the Commissioner, is referenced in Title 10, Chapter 5, Section 2498.6 of the California Code of Regulations.

The purpose of these regulations is to implement, interpret and make specific the provisions of California Insurance Code Sections 11629.72 and 11629.92, and amended by 2002 Stats., chapter 742 (formerly SB 1427 Escutia).

Recent low cost automobile insurance program legislation reduced premiums, effective March 1, 2003. Currently, the statutory premiums are \$347 per vehicle in Los Angeles County, reduced from \$450, and \$314 per vehicle in the City and County of San Francisco, reduced from \$410. This legislation also authorizes the Commissioner to set the surcharge rate for certain drivers, in consultation with CAARP.

California Insurance Code Sections 11629.72 and 11629.92 provide that, annually, CAARP shall submit a proposed rate and surcharge to the Commissioner for approval. CAARP did so, proposing to increase the statutory rates to \$450 for Los Angeles County and \$410 for the City and County of San Francisco, while maintaining the 25 percent surcharge for certain drivers.

The statutes specify that rates shall be sufficient to cover losses incurred under policies issued under the pilot program and expenses. In assessing loss reserves, the Commissioner shall only allow loss reserves estimated from actual losses in the pilot programs or comparable data by a licensed statistical agent, adjusted to reflect coverage provided by the pilot programs. Rates shall

be set so as to result in no subsidy of the program or subsidy of policyholders in one pilot program by policyholders in the other pilot program.

California Insurance Code Sections 11629.7 through 11629.84 establish, within the California Automobile Assigned Risk Plan, a low-cost automobile insurance pilot program for the County of Los Angeles. Sections 11629.9 through 11629.995 of the Insurance Code establish, within the California Automobile Assigned Risk Plan, a low-cost automobile insurance pilot program for the City and County of San Francisco.

Because the low cost automobile insurance pilot programs are established and administered through CAARP, established under Sections 11620-11627 of the California Insurance Code, CAARP procedures are applied to the low cost automobile insurance pilot programs where appropriate and not inconsistent with the low cost automobile insurance statutes. Pursuant to California Insurance Code Sections 11620 and 11624, the Commissioner approves rates for those obtaining coverage through the assigned risk plan. Before amending premium rates for CAARP, the Commissioner holds a public hearing.

For the low-cost automobile insurance pilot programs, California Insurance Code Sections 11629.7 and 11629.9 require the Commissioner, after a public hearing, to approve or issue a reasonable plan for the equitable apportionment, among insurers, of eligible persons residing in the County of Los Angeles and the City and County of San Francisco. California Code of Regulations, Title 10, Chapter 5, Section 2498.6 references the plan. This plan, approved by the Commissioner, contains rules and rates.

In accordance with these rate-setting procedures and standards, the Commissioner held a public hearing on May 7, 2003 to consider CAARP's proposal and rate alternatives for the low-cost automobile insurance program.

The proposed regulations are intended to implement the Commissioner's final action regarding CAARP's rate recommendation, as mandated by Insurance Code Sections 11629.72(c) and 11629.92(c), and clarify program rates.

SPECIFIC PURPOSE OF THE REGULATIONS AND NECESSITY

The specific purpose of each regulation and the rationale for the Commissioner's determination that each regulation is reasonably necessary to carry out the purpose for which it is proposed is set forth below.

Section 27. C. Rates

A new subsection 1 heading for Section 27 C, entitled "Liability Coverage," has been added to the existing Section 27 C. The rationale for adopting this technical change is to make it easier to find rate information for the low cost auto liability policy. Now that additional coverages of uninsured motorists and medical payments coverages are available, in conjunction with the purchase of a low cost auto policy, the new heading will clearly indicate the rate and surcharge information is for the liability policy to avoid possible confusion.

Section 27 C. 1. Liability Coverage

The new subsection 1 of existing Section 27 C sets forth annual premiums of \$347 for insureds in Los Angeles County and \$314 for insureds in the City and County of San Francisco, consistent with statutory rate-setting standards. These rates maintain current statutory rates. This subsection also provides for a 25 percent surcharge for unmarried males between the ages of 19 through 24 years of age. Adoption of this regulation is necessary to clearly indicate applicable premiums for the low cost auto liability policy so that eligible consumers, producers, and participating insurers are knowledgeable.

SUMMARY OF AND RESPONSE TO PUBLIC COMMENT

The Department's summary of and response to public comment is separately included in this rulemaking file and incorporated herein by reference.

IDENTIFICATION OF STUDIES

CAARP's rate application relies upon the expertise of CAARP's technical staff. The Department's determination of rates relies upon the expertise of its professional staff. Other than CAARP's application and accompanying explanatory memorandum and exhibits, available for public review in the rulemaking file, no studies have been submitted for this proceeding. All commenters were given an opportunity to comment on all of the comments of the other commenters included in the rulemaking file.

SPECIFIC ACTIONS, PROCEDURES, TECHNOLOGIES OR EQUIPMENT

Adoption of the proposed rates would not mandate the use of specific technologies or equipment or prescribe specific actions or procedures.

ALTERNATIVES

As set forth in the responses to comments on the proposed regulations and elsewhere in this rulemaking file, the Commissioner has determined that no reasonable alternative exists to carry out the purpose for which the regulations are proposed or would be as effective and less burdensome to affected private persons than the proposed regulations.

MANDATES

The regulations do not impose a mandate on local agencies or school districts.

ECONOMIC IMPACT ON BUSINESS

The Commissioner has determined that the proposed regulations will not have a significant adverse economic impact on businesses because the rates apply to private passenger automobile policies.

FORM 399

The Commissioner has determined that the proposed regulations do not have a fiscal impact to state agencies, local agencies and school districts or federal funding. Therefore, the Fiscal Impact Statement (Form 399), signed January 15, 2003, is still accurate.